

CITY OF BALTIMORE

LOAN AND GUARANTEE PROGRAM

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2002

(WITH INDEPENDENT AUDITORS' REPORT)

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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CITY OF BALTIMORE

MARTIN O'MALLEY

Mayor

DEPARTMENT OF AUDITS

Room 321, City Hall

Baltimore, Maryland 21202



One North Charles

Baltimore, Maryland 21201

Report of Independent Auditors

January 27, 2003

The Mayor, City Council, Comptroller and
Board of Estimates of the City of Baltimore, Maryland

We have jointly audited the accompanying financial statements of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Loan and Guarantee Program and do not purport to, and do not present fairly the financial position of the City of Baltimore, Maryland, as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

Yovonda D. Brooks, CPA
City Auditor
Department of Audits

Ernst & Young LLP

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Net Assets
June 30, 2002
(Expressed in Thousands)

Assets:

Current assets:

Cash and cash equivalents.....	\$ 16,279
Investments.....	451
Accounts receivable, net.....	159
Total current assets.....	<u>16,889</u>

Noncurrent assets:

Mortgages receivable (net of allowance of \$41,637).....	1,839
Total noncurrent assets.....	<u>1,839</u>
Total assets.....	<u>18,728</u>

Liabilities:

Current liabilities:

Due to Other Funds.....	1,799
Total current liabilities.....	<u>1,799</u>

Noncurrent liabilities:

Notes payable.....	124
Other liabilities-primarily reserves for losses on guarantees.....	2,825
Total noncurrent liabilities.....	<u>2,949</u>
Total liabilities.....	<u>4,748</u>

Net Assets:

Unrestricted.....	13,980
Total net assets.....	<u>\$ 13,980</u>

See notes to financial statements.

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2002
(Expressed in Thousands)

Operating revenues:	
Rents, fees and other income.....	\$ 409
Interest income on loans.....	<u>683</u>
Total operating revenues.....	<u>1,092</u>
Operating expenses:	
Salaries and wages.....	111
Other personnel costs.....	30
Contractual services.....	258
Program expenses.....	<u>2,811</u>
Total operating expenses.....	<u>3,210</u>
Operating (loss).....	<u>(2,118)</u>
Transfers in.....	<u>2,777</u>
Changes in net assets.....	659
Total net assets - beginning.....	<u>13,321</u>
Total net assets - ending.....	<u>\$ 13,980</u>

See notes to financial statements.

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Cash Flows
For the Year Ended June 30, 2002
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers.....	\$ 1,101
Payments to employees.....	(141)
Payments to suppliers.....	<u>(5,915)</u>
Net cash (used) by operating activities.....	<u>(4,955)</u>
Cash flows from non-capital financing activities:	
Transfers in.....	2,777
Notes receivable - repayments.....	<u>1,472</u>
Net cash provided by non-capital financing activities.....	<u>4,249</u>
Cash flows from investing activities:	
Purchase of investments.....	<u>(12)</u>
Net (decrease) in cash and cash equivalents.....	(718)
Cash and cash equivalents, beginning of year.....	<u>16,997</u>
Cash and cash equivalents, end of year.....	<u><u>\$ 16,279</u></u>
Reconciliation of operating (loss) to net cash (used) by operating activities:	
Operating (loss).....	\$ <u>(2,118)</u>
Changes in assets and liabilities:	
Decrease in accounts receivable.....	9
(Decrease) in accounts payable and accrued liabilities.....	(2)
(Decrease) in other liabilities.....	(2,786)
(Decrease) in notes payable.....	(54)
(Decrease) in due to other funds.....	<u>(4)</u>
Total adjustments.....	<u>(2,837)</u>
Net cash (used) by operating activities.....	<u><u>\$ (4,955)</u></u>

See notes to financial statements.

1. Description of the Program

The Loan and Guarantee Program, an enterprise fund of the City of Baltimore (the Program), was created by resolution of the Board of Estimates of the City of Baltimore pursuant to four separate trust agreements. As of July 1, 1986, the Board of Estimates dissolved the then existing trust agreements and placed responsibility for the continuing management of the Program with the Director of Finance of the City of Baltimore (City).

In general terms, this Program provides for utilization of proceeds from certain bond issues, grants, donations and contributions appropriated by the City and also certain funds included in the capital portion of the annual Ordinance of Estimates. Such funds are used for direct loans or for guarantees for loans made by third parties for residential, commercial and industrial rehabilitation and development or for the construction of certain capital projects.

The major objectives of the Program are the expansion of the tax base and achievement of certain employment objectives of the City. The Program supports projects, which are consistent with the master plan for City development, and provides funds only when necessary financing is not forthcoming from private lenders.

These financial statements relate only to the operations of the Program and are not intended to present the financial position, changes in financial position, and cash flows of the City.

2. Summary of Significant Accounting Policies

The accounting and financial reporting policies of the Program conform to accounting principles generally accepted in the United States (GAAP) and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB) for proprietary funds.

The Program follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded at the time they are earned and expenses are

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Financial Statements
June 30, 2002

recorded when incurred, regardless of when the related cash flows take place. Operating revenues are those that result from the services provided by the Program; all other revenue is considered non-operating.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Program.

Investments

Investments, which consist of certificates of deposit, are stated at cost.

Notes and Loan Guarantees

The Program provides for losses on notes and accrued interest receivable when, in management's judgment, it is probable that the outstanding principal or accrued interest will not be repaid in accordance with the terms of the loan and the borrower or the collateral will be unable to otherwise fully satisfy the obligation. Many loans contain provisions for the accrual of current interest and payment thereof in future periods when collateralized property produces sufficient cash flow. The Program accrues interest income in accordance with the terms of the loan contracts. Interest accruals are suspended when payments of interest or principal are not being made in accordance with contract requirements or when, in management's judgment, a loss is expected on the loan. A provision for loss on loan guarantees is recognized when, in management's judgment, a loss is expected.

Statement of Net Assets

The statement of net assets is designed to display the financial position of the Program. Since the Program has no capital assets and no restricted net assets, all Program net assets are unrestricted.

3. Implementation of New Accounting Principles

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements affect the manner in

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Financial Statements
June 30, 2002

which the City records transactions and presents financial information. Accordingly, the financial statements of the Program have been prepared in keeping with the provisions of these newly adopted GASB Statements.

4. Deposits and Investments

The Program participates in the City's pooled cash account. At June 30, 2002, the Program's share of the City's pooled cash account was \$16,279,000. All of the City's cash deposits are either insured through Federal Depository Insurance Corporation (FDIC) or collateralized by securities held in the name of the City by the City's agent.

In accordance with State law, the City is authorized to invest in direct or indirect obligations of the U.S. Government, certificates of deposit and repurchase agreements and related mutual funds. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement and that the City takes possession of the securities when the repurchase agreement's maturity is over five days. Management believes the City has complied with this policy throughout the year.

At June 30, 2002, the Program had bank balances in the form of non-negotiable certificates of deposit, with a carrying value of \$451,000, which is reported as investments. The Federal Deposit Insurance Corporation (FDIC) insured \$125,000 of the certificates held at June 30, 2002. The remaining \$326,000 was collateralized by accounts held by the City's agent but not in the name of the City.

5. Notes Receivable

Notes receivable outstanding at June 30, 2002 were collateralized by mortgages and deeds of trust. These notes bear interest at rates ranging from 1% to prime plus 6% and mature over the next 40 years. At June 30, 2002, the prime rate of interest was 4.75%. Many low interest rate loans are made with Federal funds specifically earmarked for these purposes.

6. Contingencies

As of June 30, 2002, the Program is contingently liable for insured and guaranteed loans totaling \$880,000.

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Financial Statements
June 30, 2002

7. Transfers

The Program received transfers in the amount of \$2,777,000 from the City's General Fund and certain other funds during fiscal year 2002. Of this sum, \$2,264,000 was used to cover operating deficits and the remaining \$513,000 was used for direct loans or guarantees for loans in keeping with the purpose of the Program.